

Message Text

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ACTION EB-06

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TAGS: EAGR, EALR, CE

SUBJ: GSL CUTS FERTILIZER AND MILK PRODUCT PRICES

SUMMARY. AFTER SERIES OF RISES THROUGH 1974 IN KEY GOVERNMENT-CONTROLLED INTERMEDIATE AND CONSUMER PRICES, GSL HAS BEEN FORCED TO RETREAT FROM RECENT STEEP INCREASES IN PRICES OF POLITICALLY SENSITIVE, NUTRITIONALLY ESSENTIAL MILK FOODS AND OF FERTILIZER FOR PADDY PRODUCTION. PRICES FOR BOTH, HOWEVER, REMAIN MUCH HIGHER THAN THREE MONTHS AGO. NEAR-CESSATION OF FERTILIZER APPLICATION IN PADDY PLANTING WAS THREATENING FUTURE DOMESTIC RICE PRODUCTION. PRIME MINISTER'S SON ANURA HAS TAKEN POLITICAL CREDIT FOR PRESSURING GSL TO CUT MILK FOOD PRICES. CUTS MAY TEMPORARILY REDUCE PUBLIC PRESSURE ON UNITED FRONT (UF) GOVERNMENT BUT WILL INCREASE FINANCIAL PRESSURE ON IT BECAUSE OF ADDED SUBSIDY BURDEN. END SUMMARY.

1. DURING LAST TEN DAYS GSL HAS CUT PRICES OF TWO IMPORTANT, POLITICALLY SENSITIVE, COMMODITIES. REDUCTION OF APPROXIMATELY 25 PERCENT IN PRICE OF MAJOR MILK

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PRODUCTS, FOLLOWED SUSTAINED AGITATION AGAINST

SEPTEMBER INCREASES OF ALMOST 100 PERCENT. FOR EXAMPLE, "LAKSPRAY" MILK POWER WAS REDUCED TO RS 6.00 FROM RS 8.00; PRE-SEPTEMBER PRICE HAD BEEN RS 4.75. IN ADDITION TO EVIDENCE OF HARSHIP IN FORM OF QUEUES AND HOARDING, PRESSURE FOR REDUCTION CAME FROM VOCAL CAMAPGIN BY PRIME MINISTER'S SON ANURA BANDARANAIKE. AFTER HIS CLAIM THAT HIGHER PRICES WERE INTOLERABLE BURDEON ON LOWEST CHALLSES, MODEST ROLLBACK EARNED HIM KUDOS, ADMITTEDLY FROM PRESS HE IS ABLE TO INFLUENCE, FOR HIS HUMANITARIAN CONCERN FOR CEYLONESE MOTHERS AND CHILDREN. RECUTION ALSO REPRESENTED EFFORT TO MODERATE RECENT CONUMER RUN ON LIMITED INFANT MILK SUPPLIES, ON WHICH PRICE INCREASES WERE LESS AND WHICH ADULTS AND OLDER CHILDREN HAD BEGUN TO USE IN LIEU OF OTHER PRODUCTS.

2. ON OCTOBER 21 GSL REDUCED FERTILIZER PRICES BY AVERAGE OF 25 PECTENT, LEAVING PRICE LEVEL 250 PERCENT HIGHER THAN PRE JULY LEVELS. PADDY FERTILIZER SUBSIDY LEVELS THROUGH 1974 ADJUSTMENTS ARE: PRE-JULY 12: 50 PERCENT POST-DWLY 12: ZERO; NOW: 33 PERCENT: TWO DEVELOPMENTS APPARENTLY CONVINCED GSL THAT JULY JUMP OF SOME 370 PECTENT WAS EXCESSIVE. RECENTLY PUBLISHED CEYLON CENTRAL BANK (CBC) BULLETIN ANALYSIS OF FERTILIZER PRICE INCREASE IMPACT ON FUTURE PADDY PRODUCTION CONCLUDED THAT INCREASES, DESPITE 10 PERCENT RISE IN GUARANTEED PADDY PRICE ANNOUNCED SIMULTANEOULSY WIT JULY FERTILIZER PRICE HIKE, WOULD GREATLY DISCOURANGE FERTILIZER USE BY LOW-PRODUCTION FARMERS. ONLY FARMERS PRODUCING MORE THAN 58 BUSHEL PER ACRE (NATIONAL AVERAGE IS 45) WERE SEEN LIKELY TO INCREASE FERTILIZER INPUT. CBC ANALYSIS WAS APPARENTLY BORNE OUT BY FERTILIZER CORPORATION STATISTICS ON RAPIDLY GROWING FERTILIZER STOCKPILES AND VARIOUS DISTRICT AGRICULTURAL OFFICERS' ESTIMATES THAT MANY PADDY FARMERS PLANNED NO FERTILIZER APPLICATION. IN FERTILIZER UTILIZATION PROJECTION EMBASSY HAS OBTAINED, GSL OFFICIALS STATED IT WOULD TAKE FOUR GROWING SEASONS FOR FARMER RESISTANCE TO DISSIPATE. FOLLOWING OCTOBER 21 PRICE CUTS AND EARLIER INCREAWES IN CREDIT TO PADDY FARMERS, FERTILIZER COROPRATION OFFICAL TOLD EMBOFF OCTOBER 24 THERE HAD BEEN "SOME RESPONSE" FROM FARMERS.

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3. COMMENT: CLEARLY GSL CONCLUDED IT HAD GONE TOO FAR IN ITS POLICY BEGUN OCTOBER 1973 OF DRATICALLY CUTTING SUBSIDIES IN FAVOR OF PASSING EXTERNAL INFLATION IN KEY AGRICULTURAL INPUTS AND CONSUMER IMPORTS THROUGH TO CONSUMERS. MILK FOOD PRICE INCREASES WERE NUTRITIONALLY AND POLITICALLY INTOLERABLE IN VIEW OF REPORTED WIDESPRES DETERIORATION OVER LAST 12 MONTHS OF DIET OF LOWER

ECONOMIC LCASSES. THIS IS TRUE FOR BOTH CARBOHYDRATES
AND PROTIENS BUT ESPECIALLY LATTER WHERE SCARCITY
AND MUCH HIGHER PRICES FOR MEAT, FISH, EGGS AND
MILK PRODUCTS HAVE HEAVILY REDUCED THOSE FOODSTUFFS
IN POORER CLASS DIET. FERTILZER PRICE IMPACT ON FOOD
PRODUCTION WAS EVEN MORE SERIOUS IN ONGER TERM, WITH
JULY INCREASE THREATENING TO REVERSE MARGINAL PROGRESS
IN PADDY PRODUCTION ACHIEVED DURING LAST 12 MONTHS.
GSL CONDLUDED THAT ONLY WAY TO MOVE RAPIDLY ACCUMULATING
WAREHOUSE FERTILIZER STOCKS TO FIELDS WAS TO CUT
PRICES. THSI COMES TOO LATE IN THE VIEW OF MANY
OBSERVERS TO AVOID REDUCTION IN YIELD OF YALA CROP
NOW BEING HARVESTD, BUT PRICE CUT NOW COULD IMPROVE
YIELDS OF THE ORE IMPROTANT MAHA CROP NOW BEING PLANTED.
BOTH MILK FOODS AND FERTILIZER DECISIONS RELFECT EXTREME
DIFFCIULTY OF CONDUCTING CONTROLLED DOMESTIC
PRICE STRUCTURE UNDER VIOLENTLY INFLATING EXTERNAL
ECONOMIC CONDITIONS, BUT THEY DO DEMONSTRATE
FLEXIBILITY AND REALISM IN GSL'S TACTICAL ECONOMIC DECISIONS.
VAN HOLLEN

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